

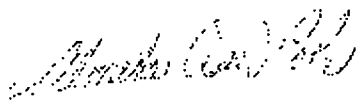
UNITED STATES DEPARTMENT OF AGRICULTURE  
Farm Service Agency  
P.O. Box 2415  
Washington, DC 20013-2415

Notice FC-98

For: State and County Offices

**Capitalization of Interest and Interest Assistance for Guarantee Loans**

Approved by: Acting Deputy Administrator, Farm Loan Programs



**1 Overview**

**A**

**Background**

On October 13, 1995, FmHA Instruction 1980-B, section 1980.124 was changed to allow for the capitalization of interest when a lender restructures a guaranteed loan. As a result of this change, there have been many questions on how to process a loan restructuring if the loan has interest assistance.

**B**

**Purpose**

This notice provides State and County Offices with the necessary information to correctly process a loan restructuring when interest assistance is involved.

**C**

**Contact**

If there are questions regarding this notice:

- County Offices should contact State Offices
- State Offices should contact the LSPMD, Guaranteed Loan Servicing Branch, through the Area Office.

**Disposal Date**

January 1, 1998

**Distribution**

State Offices, State Offices relay to County Offices

## Notice FC-98

### 2 Action

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#### A Processing a Loan Restructuring

For all loans that currently have interest assistance in place, if the loan is to be restructured with capitalized interest, forward FmHA 1980-47 to the Finance Office. FmHA 1980-47 shall indicate:

- that the loan has interest assistance
- the amount of interest capitalized
- the new loan amount
- the effective date of the capitalization
- the new loan maturity date, if changed.

Attach a cover memorandum that clearly explains the action being taken to FmHA 1980-47.

FmHA 1980-24, blocks 1 through 18, must also be completed to include the interest assistance claim for the period of time that interest assistance was in place before the restructuring. Hold this claim in the County Office and submit to the Finance Office when the annual review is completed with the claim for the new loan amount. A needs test will not be necessary to continue with the interest assistance if the capitalization occurs outside of the annual review period. Needs tests shall only be completed during the annual review.

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#### B Interest Rates and Terms

Interest rate changes must coincide with the annual payment date or the annual review date according to FmHA 1980-64, paragraph 1. If the lender is restructuring a loan outside of this period, the interest rate cannot be changed. Changes in loan terms other than interest rate can take place as part of the restructuring, as they will not effect the conditions of the Interest Assistance Agreement.

**Capitalization of the loan interest, must be at the note rate; however, only the interest owed at the borrower's effective rate (note rate minus any interest assistance) will be capitalized in the restructured loan. The balance of the interest owed will be covered by the lender's claim and will only be paid by the Agency when the annual review is completed.**

Interest assistance eligibility is limited to a maximum of 10 years for each loan or the outstanding term of the loan, whichever is less.

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### 2 Action (Continued)

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#### C

#### Obligations

No additional obligations will be necessary if the interest assistance loan has capitalized interest that does not exceed the original interest assistance loan amount and the original term of the interest assistance agreement is not being extended.

If the new restructured loan amount after capitalization does exceed the original interest assistance loan amount, complete FmHA 1940-3 for the amount that exceeds the original interest assistance loan amount.

If the new restructured loan term exceeds the original interest assistance term, but the new loan amount does not exceed the original interest assistance loan amount, correct the original FmHA 1940-3 to reflect the total number of years of interest assistance.

If the new restructured loan amount and the new term exceed the original interest assistance loan amount and term, complete FmHA 1940-3 for the additional interest assistance loan amount and correct the original FmHA 1940-3 to reflect the total number of years of interest assistance.

**Example:** Original loan is 12 years at \$75,000 with a 7-year interest assistance agreement of which 2 years have elapsed. The loan is capitalized on the annual review date to a new principal balance of \$85,000 to be repaid over 15 years. The interest assistance terms are being extended to 10 years. The original FmHA 1940-3 must be corrected to reflect an interest assistance term of 10 years based on the original loan amount of \$75,000. Write on FmHA 1940-3 that the extension is because of loan restructuring (The corrected interest assistance term will be visible on the UN screen). Complete FmHA 1940-3 for \$10,000 for 8 years, with the written notation that the additional obligation is because of capitalized interest (The additional interest assistance loan amount will not be visible on the UN screen, because the current system cannot process capitalized interest. The Field Office will receive a letter from the Financial Control Branch confirming the reservation of funds).

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## Notice FC-98

### 2 Action (Continued)

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#### C Obligations (Continued)

Two FmHA 1940-3's must be submitted to the Finance Office. The corrected FmHA 1940-3 will reflect the total number of years (10) of interest assistance in block 19, \$75,000 in block 21, and the remaining term of the loan (15 years) in block 25. The other FmHA 1940-3 will reflect an 8-year term in block 19, \$10,000 in block 21, and the remaining term of the loan (15 years) in block 25. Block 3 will always reflect FY of the original interest assistance obligation.

If the capitalization of interest is completed on a date that is outside of the annual review period, round up on the additional years of interest assistance.

**Example:** Capitalization is completed 1 year and 8 months into an existing 10-year agreement. FmHA 1940-3 for an additional interest assistance loan amount would be completed for a 9-year term.

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#### D Attachments

FmHA 1940-3 must be sent to the Finance Office along with a copy of the cover memorandum that is attached to FmHA 1980-47. A copy of the original FmHA 1940-3 must be attached to any new FmHA 1940-3.

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#### E Claims

Interest assistance claims shall continue to be made on FmHA 1980-24 no later than 60 days after the annual payment or review date. Send 2 separate FmHA 1980-24's to the Finance Office for the annual review period when the capitalization occurs outside of the annual review period.

A copy of the previously submitted FmHA 1980-47 and cover memorandum that was sent to Finance Office when the loan was restructured shall be attached to the claim. This will provide the explanation needed for the interest assistance claim.

The Finance Office shall send the checks for the interest assistance payments directly to the lender unless requested by the Field Office to send the check to the Field Office for delivery to the lender.

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